

**Pennsylvania's State System of Higher Education
Tax Procedures for University Operations**

**Tax Procedure 2015-5
Compensation and Benefits Provided to Employees by Third Parties**

Approved by:  _____ Date: November 2, 2015
Vice Chancellor for Administration and Finance

History:

Revised:

Additional History:

Related Policies, Procedures, or Standards:

Internal Revenue Service (IRS) References: IRS Publication 15, *Circular E, Employer's Tax Guide*; IRS Publication 15-A, *Employer's Supplemental Tax Guide*; IRS Publication 15-B, *Employer's Tax Guide to Fringe Benefits*

All references to "university" or "universities" in this document apply to the 14 State System universities, all branch campuses, and the Office of the Chancellor.

I. Background and Summary

IRS regulations state that compensation and fringe benefits provided to employees by third parties may be taxable to the employee as compensation. Some university employees receive supplemental compensation and/or fringe benefits from university affiliated organizations, local vendors, and other third parties.

II. Definitions

- A. **Fringe Benefit.** A fringe benefit is a form of pay for the performance of services. For example, an employee is provided with a fringe benefit when he/she is allowed to use a university vehicle to commute to and from work.
- B. **Third Party.** For purposes of this document, a third party is a university affiliate, a local vendor, or any other person or entity outside of the State System.
- C. **Imputed Income.** For purposes of this document, imputed income is an amount added to an employee's taxable wages representing cash or other benefits received by the employee from sources outside of the State System payroll process.
- D. **Nondeductible.** Reimbursements or payments that the IRS considers to be personal in nature or has otherwise deemed to be not allowable as a deduction or exclusion from income for federal income tax purposes.
- E. **University Affiliate.** Foundations, student government associations, research institutes, alumni associations, and any other 501(c)(3) corporation whose mission is to provide support to a State System university, its students, or its employees.

III. IRS Regulations (per IRS Publication 15-B)

- A. **Provider of benefit.** The employer is the provider of a fringe benefit or compensation if the benefit or compensation is provided for services performed for the employer. The

employer is considered the provider of a fringe benefit or compensation even if a third party provides the benefit or compensation to an employee for services the employee performs for the employer.

- B. **Recipient of benefit.** The person who performs the service (the employee) is considered the recipient of the benefit or compensation provided for those services, even if the benefit or compensation is provided to someone who did not perform the service, such as the employee's spouse.

IV. State System Procedures

- A. The following will be taxed as compensation to an employee when given directly to or on behalf of the employee by a university affiliate or any other third party for any purpose related to the services the employee performs for the university:
1. Honorariums, stipends, supplemental compensation, fees, bonuses, awards, prizes, commissions, and similar payments, whether or not in the form of cash.
 2. Nondeductible payments to or for retirement plans.
 3. The value of vehicles provided to employees by affiliated organizations, local car dealerships, or any other third party. The taxable value of vehicles must be calculated in accordance with the Fringe Benefit Valuation Rules detailed in IRS Publication 15-B.
 4. Payments for nondeductible vehicle, travel, and living expenses.
 5. Payments for nondeductible moving expenses.
 6. Payments for nondeductible educational expenses, including equipment given to an employee.
 7. Payments for nondeductible entertainment expenses.
 8. Any other payment that the IRS would deem to be taxable given by an affiliated organization or any other third party directly to or on behalf of an employee for any purpose related to services the employee performs or performed for the university.
- B. If any of the benefits or compensation described in section IV.A., above, are given to or on behalf of a person other than the employee (such as to an employee's spouse) as compensation for or in acknowledgement of services performed by the employee for the university, they are taxable to the employee as compensation.
- C. Universities should work with their affiliates to establish a process that ensures that the university finance/accounting and human resources offices are notified when the affiliate provides a benefit to an employee or to a member of the employee's family. A sample reporting form, [**Report of Compensation and Benefits Provided to Employees by University Affiliate**](#), which would be completed by the affiliate and submitted to the university, is attached.

- D. When an employee receives a benefit or compensation provided by an affiliate or other third party:
1. The employee must notify his/her human resources office that he/she has received a benefit described in section IV.A., above, immediately upon receipt of the benefit or knowledge that the benefit will be received, whichever is sooner.
 2. The university human resources, payroll, or accounting office, or other department assigned by the university, will notify the Office of the Chancellor's payroll operations manager of the amount of the additional benefit or compensation received by the employee, indicating the amount that is taxable, within five days of the employee's receipt of the benefit, by completing the attached [Report of Fringe Benefit or Third-Party Payment Taxable and/or Reportable on IRS Form W-2](#).
 3. The Office of the Chancellor's payroll operations manager will add the amount of the reportable and/or taxable benefit or compensation to the employee's wages as imputed income to the employee's next pay, deducting any taxes as required.
- E. The taxable reimbursements will be reported on the employee's Form W-2 in box 1, *Wages, tips, other compensation*, subject to withholding for federal income, social security, Medicare, state, and local taxes.
- F. The taxable reimbursements are not eligible for retirement or other benefits.

V. Gifts

This procedure covers only compensation and fringe benefits that are approved as part of the employee's compensation package and in accordance with any applicable collective bargaining agreements/memorandums of understanding and State System policies. It does not cover an employee's receipt of solicited or unsolicited gifts, gratuities, or advertising/promotional items, which generally should be declined in accordance with the Commonwealth [Ethics Act](#), as applicable.